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The Honorable
Charles S. Murphy, Chairman
Civil Aeronautics Board

Dear Mr. Chairman:

As you know, the Italian Government has for some time expressed dissatisfaction with our bilateral aviation relations but deferred a formal decision on denunciation of the Air Transport Agreement in view of the overall relations between the two countries. As a result of Italy's denunciation in June 1966, the present Agreement will expire on June 1, 1967, and the United States and Italian Governments will shortly enter into discussions to negotiate a new air transport services agreement. The two Governments have agreed to open discussions on a new agreement with an informal preliminary session beginning in Rome on January 9. The Italian Government has not indicated in specific terms the scope it envisages for the preliminary meeting. However, it is expected that such a session will enable the American and Italian representatives to outline the agenda and program of work for the negotiations and will enable the United States to obtain a greater awareness of Italy's desires and priorities in the negotiations.

In preparation for the preliminary session and in order to derive the maximum usefulness from that session, it would be desirable for the United States Government to formulate for itself the basic considerations and objectives which should guide it in its negotiations with Italy.

The three principal items that will need to be dealt with in the negotiations with Italy are (a) the text of the new agreement, (b) the problem of capacity, and (c) the exchange of air routes. There are a number of other issues, such as all-cargo services, and the right of multiple designation, that are also very important and will need to be resolved in the course of the negotiations. However, they are in a sense subsidiary to the three principal issues and will be governed or covered by the agreement reached on these three.

(a) The Text of the Agreement

The present Agreement with Italy was negotiated in 1948 and has not been amended in any significant way to reflect changing needs and circumstances. In denouncing the Agreement, the Italian

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Government stated that the Agreement should be brought up to date. In recent years the United States has concluded bilateral agreements with other countries using a new standard format which is designed to simplify, shorten and clarify the text. The new text preserves the basic concepts incorporated in the 1948 Italian Agreement, and therefore, it would presumably be acceptable to the United States. Retention of the 1948 text would avoid raising a number of new issues of interpretation and would consequently reduce the time necessary to negotiate a new agreement. On the other hand, the United States would then be foregoing the advantages of the significantly improved revised version.

It would be desirable for the United States to consider, before entering into the preliminary discussions, whether it prefers to retain the present text of the Agreement with Italy or whether it wishes to negotiate a new text. In any case, it would be useful for such a text to be available to the US representatives before the preliminary session begins, since the Italian representatives may insist on a new text.

(b) The Capacity Issue

Air transport relations between Italy and the United States in the post-war period have been based upon the so-called Bermuda capacity principles. These principles have permitted the carriers of both countries to develop soundly and dynamically. From the point of view of American carrier interests in Italy and of United States aviation relations with third countries, it is highly desirable that an air agreement with Italy continue to be governed by the Bermuda concepts without any significant or unnecessary deviations.

Nevertheless, it must be noted that Italian aviation delegations over the past six years have expressed increasing fear that the Bermuda provision for ex post facto reviews would not provide adequate safeguards against excessive capacity increases. In past consultations, Italian aviation authorities have indicated a willingness to accept Bermuda arrangements if a means could be established to guarantee the efficacy of capacity consultations. There are a number of possible proposals that could be made to meet Italy's preoccupation which would not incorporate the objectionable features of arbitrary unilateral predetermination.

It may prove necessary for the United States to offer some such proposal in order to conclude a mutually acceptable

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agreement. Moreover, there is a possibility that a willingness on the part of the United States to incorporate additional clarification on capacity may make it possible to reduce the route concessions that may have to be made to conclude an overall agreement.

It is therefore desirable for the United States to evaluate the importance of insisting upon traditional Bermuda principles in a new agreement and to consider what assurances may be acceptable to meet Italy's apprehension that a capacity consultation could result in a lack of capacity safeguards.

(c) Exchange of Routes

(i) United States Routes

The United States has enjoyed under the 1948 Agreement with Italy, as amended, a broadly worded route schedule, which reads: "The United States of America to Milan, Turin, Rome, Naples and beyond." The US Government interprets this route grant to permit air services to Italy via intermediate points in Canada, Western Europe and North Africa, and beyond Italy to points in the Eastern Mediterranean, the Near and Middle East, and the Far East. In reassessing these routes it may be possible to eliminate certain intermediate and beyond points, and it may be desireble to specify more fully the rights to be enjoyed. Nevertheless, a primary objective for the United States in the negotiations will undoubtedly be retention of these rights.

In addition, in the past the United States has considered the desirability of obtaining a route beyond Italy to points in East Africa and beyond to South Africa. The United States may wish to consider whether to make this route a secondary objective in the negotiations.

(ii) Italian Routes

The present route schedule between the United States and Italy grants Italy a route from Italy via intermediate points to Boston and New York, and a second route from Italy with intermediate points to Chicago. On the basis of past consultations, it is expected that Italy's route demands in the forthcoming negotiations will include a reaffirmation of its present routes to Boston, New York and Chicago, a new route to Los Angeles, the extension of

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its route to New York beyond New York to Mexico City, and the right eventually to operate a route across the Pacific either beyond Los Angeles or Mexico City, or both. In addition, Italy may need to request a restructuring of its routes to the United States points because of a Canadian restriction on the use of Montreal by Alitalia as an intermediate point.

The study prepared by the Bureau of International Affairs for the Italian negotiations contains evaluations of the various routes that Italy and the United States may wish to obtain under the new agreement. From this assessment it is possible to begin to visualize an exchange of routes that might be equitable from a purely commercial point of view. However, it would also be useful to begin to formulate a scale of relative acceptability of various route exchanges taking into consideration all pertinent aspects. Although the preliminary session would not be the appropriate occasion to indicate a specific route exchange that would be acceptable to the United States, it would be very useful to be able to discourage any Italian route suggestions that would be unreasonable or unacceptable to the United States.

The Department would appreciate receiving the tentative or preliminary thoughts of the Board on the three aspects described above at the earliest possible time, so that the appropriate guidance papers for the January discussions in Rome could be prepared.

Sincerely yours,

Frank E. Loy
Deputy Assistant Secretary
Bureau of Economic Affairs

Clearances: OA - Mr. Bolster
AN - Mr. Snowdon
AIS - Mr. Stabler

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